

NATIONAL ASSOCIATION OF GOVERNMENTAL
DEFINED CONTRIBUTION ADMINISTRATORS
2014 CONFERENCE

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Thank you for the opportunity to once again attend the NAGDCA annual conference. I always find this conference to be enlightening with respect to the administration of our defined contribution/deferred compensation plans. Similar to this year's NAPPa conference, I focused on investment related break-out sessions in order to grow my understanding of the investments best suited for governmental DC plans.

Ethics: This was an InFRE Pre-Conference Workshop that focused on the practical applications of a Code of Ethics. Specific topics included the differences between fiduciary duties and ethical standards; internal and external motivators when determining the "right" thing to do; 3 tests regarding ethical behavior - disclosure, ventilation and intuition; and the role of leadership in ensuring an ethical work environment. We then broke into small workgroups to discuss possible resolutions to two assigned ethical dilemmas. The groups presented their scenarios and proposed resolutions to all workshop participants for further input and discussion.

Keynote Presentation: Behavioral Economics and Behavior Change David Laibson, Harvard University gave an interesting presentation of studies related to people's general behavior patterns and then tied those behaviors to people's investing habits.

Washington Update: NAGDCA's lobbyist, Susan White discussed the anticipated impact of November's elections on retirement issues; the federal Budget Reconciliation Process; proposed retirement-related legislation designed to grow the budget; and proposed federal legislation that would impact the administration of public retirement systems. Various proposals adverse to retirement outcomes would remove the 10% early distribution tax penalty from governmental 457(b) plans; combine various retirement plans when applying 415 limits; and transfer retirement to the life insurance industry. NAGDCA legislative priorities include National Save for Retirement Week (passed by Congress), retaining the 10% early distribution tax penalty in order to encourage saving for retirement; elimination of Required Minimum Distributions for Roth 457s, and allowing the rollover of Roth IRAs into Roth governmental plans. Jon Sheiner then gave an interesting retrospective regarding our nation's alleged two-party system and tax reform.

New Concepts for Investment Portfolio Design: Principles from PIMCO, INVESCO and UBS Global Asset Management discussed ways to update and improve fund line-ups while still meeting the needs of our participants. According to PIMCO, 72% of plans use Target Date funds as their Qualified Default Investment Alternative (QDIA), causing assets in core funds to decrease while TD funds grow. Traditional TDFs are more risky than most participants want; the trend is moving to customized TDFs that better meet the needs and expectations of participants. PIMCO finished with a short discussion on the need to better diversify within the fixed income strategy. INVESCO talked about the need for DC plans to adopt asset allocation

mixes more in line with those in DB plans in order to reduce risk and increase returns. The final speaker pushed for the addition of real estate within DC plans in order to reduce inflation risks.

Defining and Understanding DC Investment Vehicles: I missed the beginning of this session in order to assist with discovery issues related to AMRPE. Topics of interest after my arrival included the use of “target risk funds” rather than or in addition to “target date funds;” the pros and cons of using a “White Label” or “Manager of Managers” approach with respect to options available within a DC plan; and the discovery that less than 5% of all participants take advantage of managed accounts offered within their DC plans. The session concluded with an interesting discussion distinguishing fixed and variable annuities.

Break-out Session - \$500 - \$999 million: Unfortunately, this session was dominated by an individual from Nevada and was thus not as beneficial as usual. He did trigger an interesting discussion (carried over from Sunday’s Ethics Workshop) regarding the timing of distributions from 457(b) accounts. A survey of updates provided the following: (1) Nevada’s recordkeeper RFP included performance standards; its successful provider agreed to grow the 457 plan 10% in 5 years or pay \$100,000; (2) no one in the room currently has auto-enrollment but Wyoming is introducing legislation to make it mandatory for the state and options for other employer; their initial opt-out period is 30 days with no deferrals; after deferrals start, they have 90 more days to opt-out and get all their money back. South Dakota has auto enrollment; stable value is their default for 90 days, then deferrals transferred to the appropriate target date fund. County of Sacramento suggested changing to a deferral % in order to “force” auto-escalation Wyoming is reenrolling to get participants into an target date fund rather than the previous target risk fund. Montana’s “roll-in” question was unique to us.

General Session: Regulatory Update: Attorneys Marilyn Collister from Great West and Don Wellington, former associate benefits tax counsel with the US Department of Treasury provided an in-depth discussion of 457 plan legislative history, 457 plan contributions, current 457 plan issues and updates. Regulatory authority is ranked from the highest requirements to “mere” guidance as follows: Congress adopts Internal Revenue Code provisions which are enforced by the IRS; Treasury Regulations have the highest authority after the Code. Revenue Rulings are IRS interpretations of the law. Notices provide information on where the Service is headed. Private Letter Rulings (PLRs) apply only to the requestor. Revenue Procedures provide guide lines for plan sponsors to follow.

457 Plan audits will focus on 6 areas of interest: (1) Trust Documents; (2) payment of FICA and FUTA on deferrals; (3) timely deposit of deferrals; (4) all taxes paid on Roth 457 deferrals; (5) financial hardship documentation; and (6) loan limitations.

The Honeymoon Effect: How to Create a Lifetime of Plan Sponsor/Participant Bliss: Studies show that retirement plans are encouraging 50% more people to save. When they leave employment, 25% of the funds are immediately rolled out; 1.2% are annuitized; balances under \$5,000 are cashed out; and more than 50% of balances over \$100,000 are rolled to IRAs. The push to encourage participants to leave their funds with us following retirement/termination is beneficial to participants in that it provides reduced fees, greater continuity, greater protection in bankruptcy and avoidance of the 10% early distribution penalty. But the Plan Sponsor’s liability

increases. We must stay in touch with our inactive members; keep addresses updated; and provide all necessary notices. We must also determine a fee structure that is fair to all without eating up the smaller balances. Great suggestion from the City of San Francisco: when a participant retires, send a congratulatory postcard. On the back, list several options for what to do with their 457 accounts.

Closing Session: Farnoosh Torabi The Road to Retirement: How to Inform, Engage and Mobilize Your Plan Participants: Ms. Torabi discussed the differences between Gen Yers, Gen Xers, and baby-boomers and how those differences impact their work and their approach to saving for retirement. She provided helpful tips on how to supervise each generation, as well as how to persuade each to save for retirement. Gen Yers: love what they do; want to make a social impact; are constantly learning; want a mentor and regular feedback; mentor older workers with IT issues. 30% live with their parents and 31% have no health insurance. Best way to reach them is through mentors and their peers. Provide lots of fringe benefits and reward baby steps to saving for retirement. Gen Xers: are the sandwich generation; they appreciate flexibility and want parental leave for assisting their aging parents. They are skeptical regarding investing and want a lot of options and an advisor. Boomers need to be educated face-to-face. If we show them they can afford the future, they have greater confidence.